Appendix A

Excerpted from: The Self-Sufficiency Standard for Washington State, by Pearce, Diana. September, 2001.

How the Self-Sufficiency Standard Is Calculated

The goal of making the Standard as standardized and accurate as possible, yet varied geographically and by age, requires meeting several different criteria. As much as possible, the figures used here:

- are collected or calculated using standardized or equivalent methodology,
- come from scholarly or credible sources, such as the U.S. Bureau of the Census,
- are updated at least annually, and
- are age- and/or geographically-specific (where appropriate).

Thus, costs that rarely have regional variation (such as food) are usually standardized, while costs such as housing and child care, which vary substantially, are calculated at the most geographically- specific level available.

For each county or sub-county area in Washington, the Self-Sufficiency Standard is calculated for 70 different family types—all one-adult and two-adult families, ranging from a single adult with no children, to one adult with one infant, one adult with one preschooler, and so forth, up to two-adult families with three teenagers. The costs of each basic need and the Self-sufficiency Wages for all 70 family types for all geographic areas may be found in the Full Report. We have included the costs of each basic need and the Self-sufficiency Wages for eight selected family types for each county in Washington in the Appendix to this report.

The components of the Self-sufficiency Standard for Washington and the assumptions included in the calculations are described below.

Housing: The Standard uses the Fiscal Year 2001 Fair Market Rents for housing costs, which are calculated annually by the U.S. Department of Housing and Urban Development for every metropolitan housing market and non-metropolitan county (totaling over 400 housing market areas). Fair market rents are based on data from the decennial census, the annual American Housing Survey, and telephone surveys.[i] The Fair Market Rents (which include utilities except telephone and cable) are intended to reflect the cost of housing that meets minimum standards of decency, but is not luxurious. They reflect the cost of a given size unit at the 40th percentile level. (At the 40th percentile level, 40 of the housing in a given area would be less expensive than the FMR, while 60% would cost more than the FMR.

The Standard has recently incorporated Payment Standards, which are adjustments to the FMR by local Public Housing Authorities (PHA). Each PHA has the authority to vary their payment standards by a range of 90-110%, based on the local market, and may do so in specific areas and even by size of unit. If there is a need to adjust the FMRs even further (above 110), the PHA may seek the required approval from the state's HUD office for an "exception" rent. Most exception rents are 120, or the 50th percentile, but they are defined as anything over 110%.

The Self-sufficiency Standard assumes that parents and children do not share the same bedroom and that there are not more than two children per bedroom. Therefore, the Standard assumes that single persons and couples without children have one-bedroom units;[ii] families with one or two children require two bedrooms, and families with three children, three bedrooms.

Child Care: The Standard uses the most accurate information available that is recent, geographically-specific, and age- and setting- specific. In most states, this is the survey of child care costs originally mandated by the Family Support Act, which provides the cost of child care at the 75th percentile, by age of child and setting (family day care home, day care center, etc.).[iii]

For Washington, the Standard uses the 3rd Quarter-Year 2000 Regional Market Rate (RMR) Ceilings, which are based on the results of a statewide survey of over 8,400 child care providers conducted by the Washington State Child Care Resource and Referral Network. The rates given are the DSHS reimbursement rates and are specified by age, setting, and county.

Because it is more common for very young children to be in day care homes rather than centers,[iv] the Standard assumes that children less than three years of age (infants and toddlers, called "infants" here) receive full-time care in day care homes. Preschoolers (three through five years old), in contrast, are assumed to go to day care centers full-time. School-age children (ages six to 12) are assumed to receive part-time care in before- and after-school programs.

Food: Although the Thrifty Food Plan is used as the basis of both the poverty thresholds and the Food Stamps allotments, the Standard uses the Low-Cost Food Plan for food costs.[v] While both of these USDA diets meet minimum nutritional standards, the Thrifty Food Plan was meant for emergency use only, while the Low-Cost Food Plan is based on more realistic assumptions about food preparation time and consumption patterns. Although the Low-Cost Food Plan amounts are about 25 higher than the Thrifty Food Plan, they are nevertheless conservative estimates of the level of food expenditures required to meet nutritional standards. The Low-Cost Food Plan does not allow for any take-out, fast-food, or restaurant meals, even though, according to the Consumer Expenditure Survey, average American families spend about 42 of their food budget on food eaten away from home. Again, the choice to use this food budget reflects what it costs to adequately meet nutritional needs, not consumer behavior.

The food costs in the Standard are varied according to the number and age of children and the number and gender of adults. Since there is little regional variation in the cost of food overall, the Standard uses the national average throughout the State of Washington.

Transportation: If there is an adequate public transportation system in a given area, it is assumed that workers use public transportation to get to and from work. A public transportation system is considered "adequate" if it is used by a substantial percentage of the population to get to work. According to one study, if about 7 of the total public uses public transportation, that "translates" to about 30 of the low- and moderate- income population.[vi] The city of Seattle is the only area in Washington in which substantial numbers of workers use public transportation to get to and from work, with nearly 16% of those in the city of Seattle using public transportation.

Elsewhere in the state, the proportion using public transportation is much less, and therefore it is not a reasonable assumption that workers would be able to get to work by public transportation. Therefore, we assume only workers living in the city of Seattle use public transportation. For all others, it is assumed that adults require a car to get to and from work; if there are two adults in the family, we assume two cars. (It is unlikely that two adults with two jobs would be traveling to and from the same place of work, at exactly the same time.)

Data for public transportation costs are based on the cost of a monthly pass for each adult. Private transportation costs are based on the costs of owning and operating an average car (or two cars, if there are two adults). The costs include the fixed costs of owning a car (including fire and theft insurance, property damage and liability, license, registration, taxes, repairs, and finance charges), in addition to monthly variable costs (e.g., gas, oil, tires, and maintenance), but do not include the initial cost of purchasing a car.

To estimate fixed costs, we use the Consumer Expenditure Survey amounts for families in the second quintile (those whose incomes are between the 20th and 40th percentile) of income, by region. In Washington, there are differences in costs by region, with auto insurance costing more in King and Pierce counties. Therefore, we varied the insurance portion of the fixed costs by a ratio computed from a study of insurance costs differentials done by the Office of the Insurance Commissioner for Washington and the gas cost based on AAA Surveys.[vii] For varied costs, the Standard assumes that the car(s) will be used to commute to and from work five days per week, plus one trip per week per family for shopping for food and other errands. (The commuting distance is computed using the statewide average from the National Personal Transportation Survey). In addition, one parent in each household with young children is assumed to have a slightly longer weekday trip to allow for "linking" trips to the day care center or home.

Health Care: Health care costs in the Standard include both the employee's share of insurance premiums plus additional out-of-pocket expenses, such as co-payments, uncovered expenses (e.g., dental care and prescriptions), and insurance deductibles.

Although workers who do not have employer-provided health insurance often "do without," families cannot be truly self-sufficient without health insurance. The Self-Sufficiency Standard assumes that the employer provides health insurance coverage,[viii] and that employees pay a portion of the premium for coverage (usually about one-fourth of the cost for employee only, and about one-third for family coverage).[ix] The costs of health insurance in Washington are based on data from the Office of the Insurance Commissioner for Washington which was produced by the National Institute for Health Care Management. To capture the geographical differences in costs, we varied the health insurance premiums by a ratio computed from available HMOs through the Health Care Authority of Washington.

Data for out-of-pocket health care costs (by age) were obtained from the National Medical Expenditure Survey, adjusted by state using the Families USA report, *Skyrocketing Health Inflation: 1980-1993-2000*, and adjusted for inflation using the Medical Consumer Price Index (Medical CPI).

Miscellaneous: This expense category includes all other essentials such as clothing, shoes, paper products, diapers, nonprescription medicines, cleaning products and household items, personal hygiene items, and telephone. It does not allow for recreation, entertainment, or savings. Miscellaneous expenses are calculated by taking 10 of all other costs. This percentage is a conservative estimate in comparison to estimates in other basic needs budgets, which usually use 15%.[x]

Taxes: Taxes include state sales tax, federal and state income taxes, and payroll taxes. The retail sales tax varies by locality from 7.5 to 8.6, with no tax on food. Sales taxes are calculated only on "miscellaneous" items, as one does not ordinarily pay tax on rent, child care, and so forth. (As is the case in many states, Washington does not tax services.) Indirect taxes, e.g., property taxes paid by the landlord on housing, are assumed to be included in the price of housing passed on by the landlord to the tenant. Also, taxes on gasoline and automobiles are included as a cost of owning and running a car.

State income taxes are calculated using the Commerce Clearinghouse State Tax Handbook as well as tax forms from the Washington Department of Revenue. The federal income tax calculation assumes the standard deduction and exemptions, and includes tax credits, both refundable and nonrefundable. There is no state income tax in Washington.

Payroll taxes for Social Security and Medicare are calculated at 7.65% of each dollar earned. Although the federal income tax rate is higher than the payroll tax rate—15% of income for families in this range—federal exemptions and deductions are substantial. As a result, families do not pay federal income tax on the first $10,000 to $ 12,000 or more, thus lowering the effective federal tax rate to 7% to 10% for many taxpayers.

Earned Income Tax Credit (EITC): The EITC, or as it is sometimes called, the Earned Income Credit, is a federal tax refund intended to offset the loss of income from payroll taxes owed by working-poor and near-poor families. The EITC is “refundable”; that is, working adults may receive the tax credit whether or not they owe any federal taxes, adding to their income.

Child Care Tax Credit (CCTC): The CCTC is a federal tax credit that allows working parents to deduct a percentage of their child care costs from the federal income taxes they owe. Like the EITC, the CCTC is deducted from the total amount of money a family needs to be self-sufficient. Unlike the EITC, the federal CCTC is not a “refundable” tax credit. A family may only receive the CCTC as a credit against federal income taxes owed. Therefore, families who pay little or no federal income taxes, receive little or no CCTC.

Child Tax Credit (CTC): The CTC is a federal tax credit that allows parents to deduct up to $500 per child (for children less than 17 years old) from the federal income taxes they owe. If a family has one or two children, it is calculated like the CCTC, as a credit against federal taxes owed. If the family does not owe federal taxes, or has already taken the CCTC and there is no remaining liability (that is, no federal tax is owed after the CCTC is taken), then the family is not eligible for the CTC. However, if there are three or more children, then the CTC becomes refundable (as with the EITC). In this case, the family may receive the credit (up to $500 per child), even if they do not owe any federal taxes. However, the amount of CTC they receive is limited to the amount their payroll tax exceeds the EITC that they have or will receive. Starting in 2002, the CTC will be refundable for those with earnings over $10,000.

Given the high costs of child care, most families with young children who pay market rate child care offset most or all of the federal taxes they owe with their child care tax credit. However, those with older children, or three or more children and higher incomes, are more likely to receive the CTC.

[i] These costs are based on a survey of units that have been on the market within the last two years, and exclude new housing (two years old or less), and substandard public housing.

[ii] Because of the lack of availability of efficiencies in some areas, and their very uneven quality, it was decided to use one-bedroom units for the single adult and childless couple.

[iii] Under the 1988 Family Support Act (which was superceded by the Personal Responsibility and Work Opportunity Reconciliation Act, passed in 1996), states were required to fund or reimburse child care needed by those on welfare (or leaving welfare) at market rate, which was defined as the 75th percentile, for the age of child, setting, and location. Most states conducted surveys of costs, or commissioned child care referral networks or researchers to do these studies.

[iv] Child care centers are more frequently used for older children (two to four years old) than for infants (J.R. Veum and P.M. Gleason. October, 1991. "Child Care Arrangements and Costs." *Monthly Labor Review*. p. 10-17.) However, particularly for younger children and lower-income parents, relative care (other than the parent) accounts for significant amounts of child care for children under three (27% compared to 17% in family day care and 22% in child care centers). It should be noted that relative day care is usually, but not always, in the relative's home, and is usually, though not always, paid; thus it more closely resembles (and may actually be) day care homes rather than day care centers. For children three years and older, the predominant child care arrangement is the child care center, accounting for 45% of the care (compared to 14% in family child care, and 17% in relative care.) See J. Capizzano, G. Adams, and F. Sonenstein. March 2000. *Child Care Arrangements for Children under Five: Variation across States.* Washington, DC: The Urban Institute. National Survey of America's Families, Series B, No. b-7.

[v] Because the USDA does not produce annual averages for food costs, the Standard follows the Food Stamps Program and uses the costs for June as an annual average.

[vi] See C. Porter and E. Deakin. December 1995. *Socioeconomic and Journey-to-Work Data: A Compendium for the 35 Largest U.S. Metropolitan Areas.* Berkely, CA: Institute of Urban and Regional Development, University of California at Berkely.

[vii] *Premium Comparison of Largest Auto Insurance Writers in Washington.* Washington Insurance Commissioner's Office: www.insurance.state.pa.us/html/cauto.html

[viii] According to the Bureau of Labor Statistics, 83% of non-temporary workers have health insurance provided through their employer.

[ix] A. Foster Higgins & Co., Inc., *Tables: National Survey of Employer-Sponsored Health Plans, 1993-1996* (Princeton, NJ: A. Foster Higgins & Co., Inc., 1994-1997), and William M. Mercer, Inc., *Tables: National Survey of Employer-Sponsored Health Plans, 1997 and 1998,* (New York, NY: William M. Mercer, Inc., 1998 and 1999).

[x] See C. Citro and R. Michael, eds., *Measuring Poverty: A New Approach,* Washington, DC: National Academy Press, 1995.